

— November 17, 2004 —



Logistics

Defense Logistics Agency Processing of
Special Program Requirements
(D-2005-020)

Department of Defense
Office of the Inspector General

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Acronyms

BSM	Business Systems Modernization
DDE	Demand Data Exchange
DLA	Defense Logistics Agency
DoDAAC	DoD Activity Address Code
DORRA	Defense Logistics Agency Office of Research and Resource Analysis
DSC	Defense Supply Center
DSCP	Defense Supply Center Philadelphia
ICP	Inventory Control Point
SAMMS	Standard Automated Materiel Management System
SPR	Special Program Requirement



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 17, 2004

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on Defense Logistics Agency Processing of Special Program Requirements (Report No. D-2005-020)

We are providing this report for review and comment. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all unresolved issues be resolved promptly. We request that the Defense Logistics Agency provide additional comments on the potential monetary benefits. Management comments should be provided by January 17, 2005.

If possible, please provide management comments in electronic format (Adobe Acrobat file only). Send electronic transmission to the e-mail addresses cited in the last paragraph of this memorandum. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the classified SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Terrance P. Wing at (215) 737-3883 (DSN 444-3883) (twing@dodig.osd.mil) or Mr. Richard Kotecki at (215) 737-3886 (DSN 444-3886) (rkotecki@dodig.osd.mil). See Appendix B for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Shelton Young
Shelton R. Young
Assistant Inspector General
for Readiness and Logistics Support

Office of the Inspector General of the Department of Defense

Report No. D-2005-020

(Project No. D2003LD-0180)

November 17, 2004

Defense Logistics Agency Processing of Special Program Requirements

Executive Summary

Who Should Read This Report and Why? Logistics personnel with the responsibility to manage nonrecurring materiel requirements for DoD should read this report. This report evaluates Defense Logistics Agency (DLA) policies and procedures for processing and supporting special program requirements.

Background. This is the second report on DLA management of nonrecurring requirements. The prior report, "Defense Logistics Agency Processing of Other Nonrecurring Requirements," November 7, 2003, evaluated DLA policies and procedures for processing other nonrecurring requirements that were not special program requirements. Special program requirements represent the primary method DoD organizations use to meet nonrecurring requirements for materiel supply support. Special program requirements are electronically generated by customers and pertain to DLA supply support that will be needed at a specific date in the future. As of September 30, 2003, there were 964,549 special program requirements, valued at over \$1.7 billion, in the DLA Standard Automated Materiel Management System.

Results. We evaluated DLA initiatives for minimizing inventory to support special program requirements. Although it has taken actions to minimize its investment in inventory to support special program requirements, DLA needs to expand its pilot program to reduce special program requirement procurement quantities to its Defense supply centers at Columbus, Ohio, and Richmond, Virginia. Expanding the pilot program to the other DLA supply centers could result in funds put to better use totaling \$95.6 million over 6 years, FYs 2005 through 2010, with a negligible reduction in supply availability. The full extent of the monetary benefits will be quantifiable after management takes action to limit special program requirement procurement quantities. DLA-wide implementation of the pilot program should correct the material weaknesses identified by this audit. (See the Finding section of the report for the detailed recommendation.)

We reviewed the management control program as it related to the DLA oversight and control of special program requirements. Management controls were insufficient for minimizing inventory costs in support of special program requirements.

Management Comments and Audit Response. DLA agreed to expand implementation of its pilot program and acknowledges that the pilot program will help minimize investment in inventory due to inaccurate forecasts submitted through special program requirements.

DLA did not agree with the potential monetary benefits, but provided no valid data for why it did not agree with the amount or the study that we used to compute the amount. We request that DLA provide additional comments on the final report by January 17, 2005. See the finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Management Actions. On June 15, 2004, DLA officials informed us of their decision to expand the pilot program to its Defense supply centers at Columbus, Ohio and Richmond, Virginia. DLA management is also planning to replace the special program requirements process with the demand data exchange functionality aspect of its business system modernization program.

Table of Contents

Executive Summary	i
Background	1
Objectives	2
Finding	
Defense Logistics Agency Special Program Requirements	3
Appendices	
A. Scope and Methodology	9
Management Control Program Review	9
Prior Coverage	10
B. Report Distribution	11
Management Comments	
Defense Logistics Agency	13

Background

According to the Deputy Under Secretary of Defense (Logistics and Materiel Readiness), a major objective of the DoD logistics mission is to provide responsive, cost-effective support to ensure readiness and sustainability for the total force across the spectrum of military operations. Accomplishing that mission requires DoD wholesale inventory managers to accurately forecast future requirements. The forecasts are made on the basis of recurring demand data that the inventory management organizations have accumulated and planning data that the Services have submitted concerning future operating plans, including special programs and projects. The planning data relate to nonrecurring requirements that an inventory management organization could not anticipate and provide for if forecasts for future inventory requirements were made solely on the basis of historical demand data. The primary method that DoD organizations use to meet nonrecurring requirements for materiel supply support is special program requirements (SPRs).

DoD Guidance on SPRs. DoD Regulation 4140.1-R, “DoD Supply Chain Materiel Management Regulation,” May 23, 2003, prescribes procedures for the uniform management of DoD materiel. Regarding nonrecurring requirements, the Regulation states that DoD Components may submit SPRs to materiel managers to forecast special program or project requirements that are non-repetitive in nature and cannot be forecasted on the basis of historical demand data. Further, DoD Components must establish internal controls and maintain supporting documentation to ensure the appropriateness and accuracy of SPR submissions, correlate requisitions with related SPRs, and ensure timely and accurate reporting of significant changes. Additionally, DoD Components receiving SPRs must establish internal controls to ensure that investment in inventory to support SPRs is kept to a minimum.

DoD Manual 4000.25-2-M, “Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP),” September 2001, provides procedures for submitting SPR requests to DoD sources of supply. The Manual identifies specific circumstances under which SPR requests can and cannot be submitted. For example, SPR requests can be submitted for consumable items such as bolts or screws needed for repair and rebuild programs that are either nonrecurring or are seldom or irregularly programmed; SPR requests cannot be submitted for requirements for which there are recurring demands. The Manual also states that SPR requests will be submitted to the inventory control points (ICPs) between 90 days and 5 years prior to the date that the materiel will be needed (the support date). The Manual further requires that ICPs measure the size of the requirement being forecasted to determine its acceptability in terms of the risk of long supply (excess inventory) being generated. That measurement requires consideration of the accuracy of past forecasts and the degree of assurance that requisitions will follow.

Defense Logistics Agency Guidance on SPRs. Defense Logistics Agency (DLA) Manual 4140.2, volume II, "Defense Operations Manual, Defense Supply Center, Supply Operating Procedures," April 2002, provides policy and procedures for DLA processing of SPRs. The Manual states that SPRs warrant special management emphasis and require high dollar/high volume SPRs to be validated. The validation confirms the continuing need for the requirement with the customer prior to procurement.

Volume of SPRs. DLA provided data that showed a significant increase in the forecast value and quantity of SPRs over the last 4 years. The forecast value of SPRs increased from \$352 million as of September 30, 1999, to over \$1.7 billion as of September 30, 2003. During the same period, the number of SPRs increased from 531,356 to 964,549. DLA personnel attributed the increase to the Army's overhauling of equipment in connection with the Iraq war and to DLA promoting a greater awareness of the SPR program among the Services. The increase in SPRs represents a significant financial risk to DLA because customers are not required to requisition materiel procured to support SPRs, and there is no penalty to the customers for overestimating requirements. Table 1 shows SPRs generated by Service as of September 30, 2003.

Table 1. DLA SPRs as of September 30, 2003

<u>Service</u>	<u>Number of SPRs</u>	<u>Value (in millions)</u>
Army	765,969	\$1,031
Navy	90,883	301
Air Force	96,219	419
Marines	11,478	6
Total	964,549	\$1,757

Objectives

Our overall objective was to evaluate the process used by DoD Components for processing and supporting SPRs. Specifically, we evaluated DLA initiatives for minimizing investment dollars to support SPRs. We also reviewed the management control programs as they applied to the audit objective. This is the second report on DLA management of nonrecurring requirements. The prior report, IG DoD Report No. D-2004-018, "Defense Logistics Agency Processing of Other Nonrecurring Requirements," November 7, 2003, evaluated DLA policies and procedures for processing other nonrecurring requirements that were not SPRs. See Appendix A for a discussion of the scope and methodology, our review of the management control program, and prior audit coverage.

Defense Logistics Agency Special Program Requirements

DLA had taken actions to minimize its investment in inventory to support SPRs. Although DLA had introduced a pilot program to reduce SPR procurement quantities at its Defense Supply Center Philadelphia (DSCP), DLA did not expand that program to its Defense supply centers (DSCs) in Columbus, Ohio, or Richmond, Virginia. DLA officials stated that the program had not been expanded because of concerns from the Services and DLA readiness personnel that the pilot program would adversely affect supply availability. Consequently, DLA incurred unnecessary procurement costs. Using a DLA Office of Research and Resource Analysis (DORRA) study dated April 2004, we found that by expanding the pilot program to the DSCs at Columbus and Richmond, funds put to better use could total \$95.6 million over 6 years, FYs 2005 through 2010, with a negligible reduction in supply availability.

DLA Initiatives to Reduce SPR Inventory Investment

In response to the increased use and dollar value of SPRs over the last 4 years and DoD Regulation 4140.1-R requirements, DLA developed two initiatives to minimize its investment in inventory to support SPRs.

Streamlined Validation Process. The first DLA initiative was to develop a streamlined validation process. Under prior SPR validation procedures, the DLA Standard Automated Materiel Management System (SAMMS) automatically generated a listing of SPRs for \$2,500 or more whenever an item reorder point¹ was reached. Individuals designated as SPR monitors validated those requirements by contacting the submitting organizations by mail or message. On the basis of responses received from the submitting organizations, the SPR monitors entered confirmation codes or changes in SAMMS and notified the DLA item managers of actions taken.

In May 2002, DLA implemented a streamlined, automated validation process at the DSCs. The process begins 90 days before an item's reorder point with SAMMS generating an e-mail validation request to submitting organizations for all SPRs exceeding \$10,000 in value.² If no reply is received within 30 days, a follow up e-mail is sent. The submitting organization has an additional 30 days to respond to the follow up. If no response is received, a final validation request is sent. If no response is received within 15 days of the final request, the SPR is automatically cancelled by DLA. Under this process, the maximum allowable

¹ The reorder point is the point at which replenishment action for an item must be initiated in order to permit continuous supply support.

² DLA data show that SPRs exceeding \$10,000 in value account for nearly 70 percent of the dollar value of outstanding SPRs but only about 3 percent of the volume.

timeframe for validating SPRs is 75 days (15 days before the item's reorder point).

Data provided by DLA indicate that the streamlined SPR validation program is successful in identifying and canceling a significant number of SPRs. From February 2002 to September 2003, DLA generated 31,806 validation requests, valued at over \$1.6 billion. Those validation requests resulted in 4,948 SPR cancellations, valued at \$274 million (17 percent of the value of SPRs submitted for validation). Table 2 summarizes the DLA SPR validation results.

**Table 2. DLA SPR Validation Results
(February 2002 to September 2003)**

<u>Category</u>	<u>Number of SPRs</u>	<u>Value (in millions)</u>
Cancellations	2,596	\$ 138
No Response (Resulting in SPR Cancellations)	2,352	136
Total Cancellations	4,948	274
Confirmations	26,858	1,338
Total Validation Requests	31,806	\$1,612

Buy-Back Program. The second DLA initiative was to develop a buy-back program consisting of two elements. One element tracks the rate at which the Services requisition items related to SPRs (commonly referred to as the “buy-back” rate) and provides that data to the Services. A second element applies adjusted buy-back rates limiting SPR procurements. The buy-back program was developed in response to the continuing low buy-back rates for the Services.

Tracking Buy-Back Data and Providing Feedback to the Services. The DLA buy-back tracking system tracks the rate at which the Services requisition items related to SPRs and provides that data to the Services to improve SPR forecasts, thereby minimizing the DLA investment in inventory. The DLA buy-back tracking system was implemented in FY 2000 and has been through several refinements. In its current version, the tracking system compares forecasted SPR quantities to quantities requisitioned in excess of recurring demand for the prior 12 months. The tracking system performs the comparison by matching the DoD activity address code (DoDAAC) and the national stock number of an SPR to a requisition containing the same DoDAAC and national stock number.

In FY 2003, the DLA buy-back data became accessible to customers through an Internet Web site. The Web site allows customers to access SPR tracking system data and configure the data to obtain buy-back rates unique to the forecasting activity, DoDAAC, and project code within each Service. Customers can also view buy-back data for individual national stock numbers.

Use of Adjusted Buy-back Rates Limiting SPR Procurement

Quantities. The adjusted buy-back rates are determined by buy-back rates and support percentages. Support percentages are determined by the rate at which DLA supported prior SPRs from on-hand inventory. Without adjusted buy-back rates, DLA supported SPR quantities at 100 percent. Using adjusted buy-back rates, DLA supports SPR quantities at an adjusted rate, thereby minimizing the DLA investment in inventory. According to DLA officials, adjusted buy-back rates, which limit SPR procurement quantities, were initially to be tested under a pilot program at DSCP and, if successful, expanded to the Columbus and Richmond DSCs, greatly minimizing the financial risks associated with supporting SPRs.

As an example, DSCP applied the use of adjusted buy-back rates to SPRs for screws from an Army DoDACC. Without the use of adjusted buy-back rates, SAMMS showed nonrecurring requirements for 15,805 screws, which required the purchase of 12,005 screws, valued at \$64,227. With the use of adjusted buy-back rates, SAMMS showed nonrecurring requirements for 5,941 screws, which required the purchase of 3,353 screws, valued at \$17,933. The result was a \$46,294 cost avoidance.

Testing the use of adjusted buy-back rates that limit SPR procurements began at DSCP in May 2002. According to DSCP personnel, 4 months after implementing the pilot program, the value of SPR procurements was reduced by \$3 million. The program continued to reduce SPR procurement costs in FY 2003. According to DSCP personnel, the program reduced or cancelled 12,329 of 100,634 (12 percent) SPR-related procurement actions, resulting in a \$26 million reduction in procurement costs while still maintaining an overall supply availability at 88 percent.³

Additional Action Required to Minimize SPR Investments

Twenty-six months after the pilot program began at DSCP, DLA had not yet expanded the program to its other DSCs. DLA managers stated that the reason the program had not been expanded was because the Services and DLA readiness personnel expressed concerns that expanding the program could adversely affect supply availability. However, a study completed in April 2004 by DORRA concluded that the DLA-wide use of adjusted buy-back rates would have resulted in reduced SPR procurement costs of about \$22.4 million over a 15-month period ending December 2003, with a negligible reduction in supply availability from 87.96 percent to 87.77 percent.

³ The DoD standard is to fill customer requisitions at an aggregate supply availability rate of 85 percent by weapon system.

The April 2004 DORRA study evaluated the impact of implementing the DLA-wide use of adjusted buy-back rates limiting SPR procurement quantities on procurement costs and supply availability. The study used inventory models to measure the impact of supporting SPRs at the current DLA support rate of 100 percent and at an adjusted buy-back rate. The results were based on an analysis of 216,377 SPRs, valued at \$491 million, for the 15-month period ending December 2003. The following table shows the results of the study.

Table 3. Results of DORRA Study			
<u>Impact Category</u>	<u>100 Percent SPR Support</u>	<u>Adjusted SPR Support</u>	<u>Difference</u>
Supply Availability	87.96%	87.77%	-0.19%
Procurement Costs (Millions)	\$1,433.6	\$1,411.2	-\$22.4

Using the cost data from the DORRA study, we calculated that DLA could avoid costs of about \$15.9 million annually by expanding the use of adjusted buy-back rates to the Columbus and Richmond DSCs. To calculate the \$15.9 million, we determined that the average annual cost avoidance identified by the DORRA study was \$17.9 million (\$22.4 million divided by the 15 month study time frame multiplied by 12 months). We reduced the \$17.9 million by \$2 million because DSCP, which was already applying adjusted buy-back rates, processes 11.1 percent of the total value of SPRs. Projecting the annual cost avoidance over 6 years, FYs 2005 through 2010, yields funds put to better use totaling \$95.6 million. The full extent of the monetary benefits will be quantifiable after management takes action to limit SPR procurements.

In December 2003, we informed DLA headquarters management that on the basis of our preliminary audit work, DLA should expand the use of adjusted buy-back rates limiting SPR procurements to the Columbus and Richmond DSCs.

DLA Headquarters Actions

On June 15, 2004, DLA headquarters management informed us of its decision to implement adjusted buy-back rates limiting SPR purchases agency wide. DLA considered DoD guidance, the DORRA study, and our preliminary audit findings in its decision. Full program implementation at the Columbus and Richmond DSCs is tentatively scheduled for December 2004.

DLA is also planning to replace the SPR process with the demand data exchange (DDE) functionality aspect of DLA's business systems modernization (BSM)

program. The objective of DDE is to develop accurate requirements forecasts that will be used in the customer order and procurement processes. According to DLA personnel, DDE will achieve that objective by incorporating the use of historical demand data in procurement planning similar to the use of adjusted buy-back rates in planning SPR procurements.

According to DLA personnel, the DDE process will begin with customers electronically forwarding DLA their total requirements (recurring and nonrecurring) through the BSM system. Using a commercial software package, BSM will compute differences between total requirements and statistical forecasts compiled from the historic demand data. The differences will be compared to preset parameters that have not yet been determined. Differences within parameters will be processed as additions or deletions to procurement plans. Differences exceeding parameters will be resolved through collaborative efforts between Service customers and DLA demand planners who will reach a consensus and adjust procurement plans accordingly.

According to DLA headquarters personnel, as of February 2004, DDE was in the “design/build state.” Supporting documentation was not available addressing DLA progress in implementing DDE, in coordinating requirements and establishing preset parameters with the Services, or on establishing internal controls that would ensure compliance with DoD requirements. Until the DDE functionality aspect of the BSM program is implemented, DLA management informed us that they will continue with the SPR program initiatives, including the use of adjusted buy-back rates. We plan to evaluate DLA progress toward implementing DDE in a future audit.

Recommendation and Management Comment

We recommend that the Director, Defense Logistics Agency, prepare quarterly statistic reports quantifying the cost effectiveness of the special program requirement initiative to reduce or cancel procurement actions by the use of adjusted buy-back rates, segregated by Defense supply center.

DLA Comment. DLA partially concurred with the recommendation and stated that it agrees to prepare quarterly statistics quantifying the cost effectiveness of the program using adjusted buy-back rates, segregated by Defense Supply Centers.

Management Comments on the Potential Monetary Benefits and Audit Response

DLA Comments. DLA did not agree with the estimated \$96.5 million in potential monetary benefits. Although DLA acknowledged that implementing the pilot program would help minimize its investment in inventory because of inaccurate forecasts submitted through SPRs, it did not agree with the initial study indicating savings or that DLA incurred unnecessary procurement costs. In

addition, DLA stated that SPRs are accepted to support demand forecasts up to 3 years from initial input and are not part of the requirements stack until the support date falls within lead times, and therefore, depending on the demand usage and stockage levels, DLA may or may not initiate procurement.

Audit Response. DLA did not provide any data for why it did not agree with the \$95.6 million in potential monetary benefits. We used the results of the April 2004 DORRA study to calculate the potential monetary benefits. The results of the study were based on an inventory model using actual SPRs, valued at \$491 million, for the 15-month period ending December 2003. The study concluded that DLA use of adjusted buy-back rates over the 15-month time frame would have reduced SPR procurement quantities by \$22.4 million.

We agree with DLA that depending on usage and stockage levels, DLA may or may not initiate procurement actions to support SPRs. The DORRA study considered usage and stockage levels in determining the impact of using adjusted buy-back rates to reduce SPR procurement quantities. DLA personnel who manage the SPR program and who initially requested the DORRA study stated that they agreed with the results of the study. Additionally, DLA personnel used the study to justify DLA-wide implementation of adjusted buy-back rates limiting SPR procurement quantities to DLA management. We request that DLA reconsider its position and provide additional comments on the potential monetary benefits in response to the final report.

Appendix A. Scope and Methodology

We reviewed DoD and DLA guidance regarding policies, responsibilities, and procedures for managing forecast requirements dated from September 2001 through May 2003. We also interviewed officials and obtained documents from DoD, the Military Departments, and DLA headquarters regarding SPR background information.

Information on the number and value of SPRs as of September 30, 1999, and September 30, 2003, was obtained from DORRA historical files. Information on the status of the pilot program using adjusted buy-back rates to limit SPR procurement was obtained from DLA headquarters and DSCP. Information on the methodology and criteria used to determine the impact of the DLA-wide adjusted buy-back rates limiting SPR procurements was reviewed at DORRA. Information on the proposed replacement of the SPR process with the DDE functionality aspect of the BSM program was reviewed at DLA headquarters and also obtained from supply analysts at the BSM office.

We performed this audit from August 2003 to August 2004 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We used SAMMS queries that were developed by DLA to determine the number and value of SPRs that were processed for validation from February 2002 to September 2003. We did not perform a formal reliability assessment of the computer-processed data; however, we determined through discussions with item managers and reviews of other data extracted from SAMMS that quantities and acquisition costs of SPRs matched the information in the computer-processed data we used. Further, although we used SAMMS to determine the number of open SPRs, we did not rely on the computer-based data to form our conclusions about the processing and support of SPRs.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Inventory Management high-risk area.

Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of DLA management controls over SPRs. We also reviewed management’s self-evaluation applicable to those controls.

Adequacy of Management Controls. As defined by DoD Instruction 5010.40, we identified a material management control weakness in the oversight and control of SPRs. Management controls were not adequate for implementing DoD guidance that directs DSCs to measure the size of the requirement being forecasted to determine its acceptability in terms of the risk. That determination requires consideration of the accuracy of past forecasts and the degree of assurance that requisitions will follow, thereby minimizing inventory costs in support of SPRs. During our audit, management took action to implement the DoD guidance by expanding the pilot program. As a result, costs of \$95.6 million over 6 years could be avoided. A copy of the report will be provided to the senior official responsible for management controls at DLA.

Adequacy of Management's Self-Evaluation. DLA did not identify reviewing SPR requirements as an assessable unit and, therefore, did not identify or report the material management control weakness identified by the audit.

Prior Coverage

During the last 5 years, the Inspector General of the Department of Defense (IG DoD) has issued one report discussing other nonrecurring requirements. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

IG DoD Report No. D-2004-018, “Defense Logistics Agency Processing of Other Nonrecurring Requirements,” November 7, 2003

Appendix B. Report Distribution

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Defense Logistics Agency Comments



IN REPLY
REFER TO

DEFENSE LOGISTICS AGENCY
HEADQUARTERS

8725 JOHN J. KINGMAN ROAD, SUITE 2533
FORT BELVOIR, VIRGINIA 22060-6221

OCT 14 2004

J-33

MEMORANDUM FOR DoDIG

SUBJECT: Draft DoDIG Audit Report on the, "Defense Logistics Agency Processing of Special Program Requirements Project No. D2003LD-0180, dated August 11, 2004.

The Defense Logistics Agency partially concurred with Recommendations 1 in the subject draft report, and propose to take corrective measures as stated in TAB B.

We appreciate the opportunity to comment on the draft report. Questions may be referred to Ms. Jennifer Johnson, (703) 767-1601, or Mr. Melvin Nicholson, Internal Review Office, 703-767-6216.



CLAUDIA S. KNOTT
Deputy Director
Logistics Operations

Attachment
DLA Comments

Federal Recycling Program  Printed on Recycled Paper

From: DLA-J332

To: DLA-J308

Subject: Defense Logistics Agency Processing of Special Program Requirements
Project No. D2003LD-0180, August 11, 2004

FINDINGS: Subject DOD IG audit has found that DLA is not in compliance with DOD 4000.25-2, Chapter 13, regulation which requires that the Defense Supply Centers measure customer forecast submitted via SPRs to determine acceptability in terms of risks of long supply being generated. The IG audit also sites that DLA had introduced a pilot program to reduce SPR procurement quantities at its Defense Supply Center Philadelphia (DSCP), however, did not expand that program to Defense Supply Center Columbus nor Defense Supply Center Richmond.

RECOMMENDATION: DOD IG audit recommends that DLA prepare quarterly statistics quantifying the cost effectiveness of the special program requirement initiative to reduce or cancel procurement actions by the use of adjusted buy-back rates, segregated by Defense Supply Centers.

DLA COMMENTS: Partially concur. DLA agrees to prepare quarterly statistics quantifying the cost effectiveness of the program using adjusted buy back rates through the AIMs SPR Support Program. DLA has expanded the AIMs SPR Support Program to the Defense Supply Center Richmond and the Defense Supply Center Columbus and has issued new policy with implementation expected within 45 days. We do not agree, however, with the potential monetary benefits indicated within the audit. Implementation of this program and policy will help DLA minimize investment in inventory due to inaccurate forecasts submitted via SPRs. DLA does not concur with initial study indicating \$95.6 million in savings or that DLA incurred unnecessary procurement costs. SPRs are accepted to support demand forecasts up to 3 years from initial input and are not part of the requirements stack until the support date falls within lead times. Therefore, depending on the demand usage and stockage levels, DLA may or may not initiate procurement.

DISPOSITION:

(X) Action is ongoing ECD: 1Dec04
() Action is complete.

ACTION OFFICER: Jennifer Johnson, DLA-J332, (703)767-1601

REVIEW/COORDINATION: J332 *8/11/04*

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